CHAPTER 6

Firms' Trade Policy Preferences

ARE FIRMS' TRADE POLICY preferences shaped by the extent of their integration into the international economy? To what degree do the three sets of cases confirm our four hypotheses? This chapter considers the answers to these questions and, in doing so, examines similarities and differences among the cases. Three related points are also developed. First, several other explanations of firms' demand for trade policy are discussed to see how the cases here shed light on these theories. Second, the logic behind the central argument is evaluated. Do the case studies reveal that rational behavior is the basis for firms' decisions? Again, other interpretations of firms' behavior, focusing on past behavior, ideology, and context, are analyzed. Finally, an explanation of how the micro arguments about firms' preferences provide the basis for a macro argument about the aggregate differences between the 1920s and the 1970s—the initial puzzle—is presented.

INTERDEPENDENCE

Greater interdependence should reduce some firms' interests in protection. Firms with greater export dependence, multinational production, and global intrafirm trade should be less protectionist than more domestically oriented firms, even under similar conditions of economic distress. The four hypotheses detailing this argument are reviewed in table 6.1. These hypotheses link firms' different levels and types of international operations to different trade policy preferences. We may now ask whether the cases in chapters 3, 4, and 5 support the idea that firms with more extensive ties to the international economy in the 1920s and 1970s, as well as in the United States and France, have less protectionist preferences than do more domestically oriented firms. Because the firms in each case were in economic difficulty and were experiencing the greatest increases in imports among their contemporaries, all of them should have been likely to desire protection. That some did not is surprising. As listed in table 6.2, the more international firms are generally less protectionist, despite their problems.

The first hypothesis (Type I) refers to industries lacking linkages to the international economy. Firms in Type I industries are oriented

TABLE 6.1 The Four Hypotheses

MULTINATIONALITY	Low EXPORT DEPENDENCE	High EXPORT DEPENDENCE
High	TYPE IV Mixed interests; less protectionist than Type I; selective protectionist	TYPE III Least protectionist; most free trade
Low	TYPE I Most protectionist; for global protection; intensity of demand varies with economic difficulty	TYPE II Less protectionist than Type I; most favored is open markets abroad

primarily to the domestic market, since they possess limited export dependence and little multinationality. When experiencing economic difficulty and rising imports, these firms are likely to seek protection. Indeed, such firms are expected to devote increasing amounts of effort to obtain import barriers as their situation worsens, and they are expected to seek global, not selective, protection of their market. They should prefer to reduce all imports, not just those from certain countries or of certain products. This preference is rational, given the extensive dependence of these firms on the domestic market. For them, protectionism is not a costly policy. It benefits them by reducing imports but cannot hurt them by affecting their export or multinational operations, because these are minimal or nonexistent. Industries composed of firms without these international ties should be the most actively and intensely protectionist of all.

Among the American and French cases, four industries can be classified as Type I: the 1920s U.S. woolen goods manufacturers, the 1920s U.S. watch and clock manufacturers, the 1970s U.S. nonrubber footwear manufacturers, and the 1970s French footwear producers. As the case studies document, these four industries exhibited low export dependence and limited multinationality. They were also the most protectionist.

When World War I ended and imports and other difficulties mounted, firms in the U.S. woolen goods industry began lobbying for

TABLE 6.2 The Industries and Their Preferences

Industries, by International Ties	Type	Trade Preferences
U.S. Woolens (1920s)	I	Protection
U.S. Footwear (1970s)	I	Protection
U.S. Watches and Clocks (1920s)	I	Protection
French Radios and TVs (1970s)	I/IV	Selective protection
U.S. Textile Machinery* (1920s)	II	Divided; some free trade, some moderate protection
U.S. Radios and TVs (1970s)	IV	Divided; RCA free trade, others selective protection
French Footwear* (1970s)	III/I	Divided; selective protection
U.S. Machine Tools* (1970s)	II	Free trade; selective protection in mid-1980s
French Watches and Clocks* (1970s)	II	Divided; free trade until 1980s, when selective protection favored
U.S. Fertilizer (1920s)	III	Free trade
U.S. Newsprint (1920s)	IV	Free trade
U.S. Tires (1970s)	IV	Free trade; some divisions
French Pharmaceuticals (1970s)	III	Free trade
U.S. Photo Equipment (1920s)	III	Moderate protection; increasingly free trade
U.S. Watches and Clocks (1970s)	IV	Divided; some moderate, selective protection
U.S. Semiconductors (1970s)	III	Free trade; increasing strategic protection demands in mid-1980s.
French Tires (1970s)	III	Free trade
French Glass (1970s)	III	Free trade

NOTE: Industries are ranked in terms of increasing international ties. The order is a rough approximation only. It was constructed by adding together each industry's value of export dependence and percentage of foreign investment from tables 2.7 and 2.8. Not all of these measures are strictly comparable; thus the ranking is suggestive at best. The asterisked industries were moved out of their numerical order because the numbers used were clearly inaccurate. They were placed in order using data the cases suggested was more appropriate.

closure of the domestic market. They demanded increased tariffs during the 1921 Emergency Tariff debate, and later they called for a duty increase of 130 percent in the Fordney McCumber tariff hearings. When new difficulties arose in the late 1920s, they demanded even higher tariff levels before and during the Smoot-Hawley hearings. In addition the industry favored the protectionist American valuation plan and opposed the flexible tariff provision, which allowed the President to adjust rates up or down unilaterally. Protectionist pressure was also directed against the U.S. Tariff Commission. This pressure came mainly from small, specialty firms, but it underscored the industry's eagerness for extensive protection. The wool manufacturers' preferences for protection rose in intensity with the level of economic difficulties, were voiced in all possible political arenas, and were focused on obtaining global protection.

The U.S. watch and clock manufacturers in the 1920s were also limited in their international economic ties. These producers had strong preferences for protection during the decade, especially in the first half. In 1921 they lobbied Congress for sizable increases in their tariffs and demanded a return to the highest rates ever adopted. They sought to alter their tariff classification to evade the freer trade influences of other metals manufacturers. In the mid-1920s the watch and clock manufacturers followed up their protectionist lobbying of Congress with pressure on the USTC. In 1929, after suffering a renewed onslaught of import penetration, they demanded further protection. The growth of foreign sales and import-assembly operations over the decade, however, moderated the duty increases desired and prompted some interest in tariff reductions.

Given their lack of strong foreign ties, these domestic producers saw protection as a congenial solution to their problems. But the intensity of their preferences for market closure varied with their economic situation. Desire for protection increased after the two periods (1919-21 and 1925-27) of most rapid import growth. Like the woolens industry, they lobbied all available political arenas for help: Congress, the Tariff Commission, and the public. The industry began the decade united in its preferences for tariff increases on all products. However, as some firms developed exports and import-assembly operations, the consensus for global protection dissolved. Firms involved in these trading operations sought to have their products exempted from the protectionist upswing. Growing interdependence within the industry reduced pressures for market closure, an outcome different from the case of the woolens industry, where such international ties never developed.

American nonrubber footwear producers also had a domestic orientation in the 1970s. Throughout the decade, these producers had limited international ties. After imports surged in the late 1960s, the industry began its campaign for protection. In the early 1970s it filed both an escape clause petition and numerous countervailing duty cases. As new difficulties arose, the industry renewed its protectionist activities, filing more escape clause actions in 1975 and 1976. The industry also lobbied Congress for aid. It sought exemption from the Tokyo Round tariff cuts and inclusion in bills designed to protect the domestic market for textiles. Overall, the industry was unified and intensely protectionist in the 1970s. Like the two 1920s cases, its activities to obtain protection increased dramatically as its imports and economic difficulties mounted. Moreover, its lobbying was widespread; all possible political arenas were used to voice its preferences: the ITC, the executive branch, Congress, and the public. The industry's most preferred outcome was for global protection on all products. Like the 1920s watch and clock manufacturers, however, its unity was reduced in the 1980s as its largest firms developed import-assembly operations and multinational production.

The final Type I industry was French footwear. Among the four cases, this industry was the most divided. The majority of French footwear producers were small and national, lacking international ties. The four largest firms were, however, significant importers and foreign producers. Not surprisingly, the industry was divided in its trade policy preferences. The bulk of producers, organized in the FNICF, became protectionist after 1975 when imports surged and exports fell. This group sought protection in the European Community and in France. In the 1970s these producers were opposed by the four large firms, and protection was limited in its scope as a result. Later, when further protection was desired by the majority of producers, this too was limited so as not to interfere with the large firms' international operations.

The French footwear case confirms the propositions about domestically oriented, Type I industries. Closure of the domestic market was preferred by the majority of firms. The intensity of their demands for protection, varying with the level of import penetration, rose after 1975 when imports overtook exports. The industry, lobbying both European and French officials as well as taking action on its own, sought protection from all potential sources. Divisions within the industry limited the scope of protection it sought. Global protection was the preference of the bulk of domestic producers, but the trading relations of the largest firms gave them an interest in shielding their trade from any new barriers. The industry compromised and sought selective restraints. Global protection is most desirable only in industries where all of the firms lack significant international ties, as in the 1920s U.S. woolen goods industry.

A Type II industry is one with extensive exports but limited multinationality. Such industries should be less protectionist than those in Type I, even when the Type IIs face similar levels of import competition and economic distress. In fact, these export-oriented firms are likely to press for greater market openness, especially abroad. Despite import pressure, these firms are expected to maintain an interest in open markets largely because the costs of protection, due to retaliation or loss of export markets, are greater than its benefits. According to our hypothesis, the three Type II industries among our cases should have similar trade preferences despite their different contexts. In particular, they should be most concerned with increasing the openness of their export markets and secondarily interested in maintaining their home market's openness. Interest in the latter will increase when linked explicitly to progress in the former. In any case, demands for protection from such industries are expected to be unusual even in times of great economic distress, as long as exports remain significant.

The U.S. manufacturers of textile machinery in the 1920s made up one such export-oriented industry. Though appearing export dependent in the aggregate, these builders were divided in two: the woolen machinery sector had few exports, while the cotton machinery sector had significant exports. This division reduced its capacity to develop a single trade policy preference. In the early 1920s when exports were most significant, the industry was unable to lobby Congress during its tariff hearings. Severe economic distress and rising imports did not drive these producers to embrace protectionism. Rather, the export interests of some firms divided the industry and muted preferences for protection. Over the decade these export interests declined, and so did the interests of these firms in avoiding protectionist demands. In 1929 a group of firms, mainly in woolen machinery, pressed for moderate tariff increases on their machines. Despite being beseiged by imports, these producers refrained from demanding protection for much of the decade and remained moderate in their later demands.

The U.S. machine tool industry in the 1970s was also export oriented. Export dependence in it was significant but declining over the decade. These manufacturers lost market share to imports and experienced other economic difficulties; however, they did not resort to demands for protection but instead pressed for help in promoting their exports. In the early 1970s the industry lobbied Congress and the executive branch for aid to its exports. In particular, the industry wanted major foreign markets (such as those of the Soviet Union and the Eastern bloc) to be opened to its exports. The failure of these initiatives, the decline of the industry's trade, and the increase of imports into the United States eventually pushed the industry to seek aid against imports. After 1978, interest in protection rose. However, it was targeted mainly against one country, Japan, and was fueled by the decline in U.S. exports. Throughout much of the 1970s the industry's export orientation led it to support trade liberalization both at home and abroad, despite mounting imports. This orientation shifted, however, when the significance of its exports declined, especially relative to that of its import competition.

The French producers of watches and clocks had significant export sales for most of the 1970s. With the advent of electronic watches, however, for which the industry was not prepared, its export dependence began falling and import penetration surged. During the 1970s the industry never demanded protection despite its problems. In fact, in the early part of the decade the industry supported trade liberalization, as is evident in its interest in the GATT tariff reductions and a Swiss-EC trade treaty. Later the industry did seek aid in adjusting through various industrial policy plans, but these efforts had little protectionist intent. Although beginning in 1980 the industry sought protection, this was primarily against Asian imports of electronic watches, a product the French barely produced, let alone exported. More surprising than this interest in protection was the industry's lack of such interest in the decade. In the early 1970s, when its trade dependence was rising, the industry pushed for freer trade both at the national and EC level. Even in the late 1970s, when its difficulties and imports mounted, the watch and clock producers resisted the temptation to demand protection and sought rather to foster adjustment to the new competitive situation. Only when the importance of exports declined, especially relative to that of imports, did their interest in protectionism grow.

These three cases demonstrate the importance of export dependence as a barrier against protection. In each, when export dependence was rising and/or strongest for the industry, interest in protection was insignificant despite surging imports. Indeed, trade liberalization was preferred at this time. These export-oriented industries were distinct in their trade preferences from the more domestically oriented, Type I industries. The similar competitive difficulties of the two sets of industries prompted divergent preferences as a result of their different ties to the international economy.

In each case, however, these industries eventually sought some protection. Declining export dependence coupled with rapidly rising import penetration unhinged these firms' resistance to protection. In all three cases, when import penetration rose above export dependence—i.e., when imports overtook exports as a percent of domestic production—protection became more desirable. This shift in preferences occurred as the the export constraint declined. This finding suggests two caveats for the argument. First, export dependence may not lead to *stable*, long-run preferences for freer trade. Exports in themselves may be unstable, and when they decline shifts in firms' preferences are expected. Even if exports are stable, moreover, rapidly surging imports may turn firms' attention from their export interests to their import problems. Export dependence may thus operate only at a high "threshold." When export dependence is high and increasing, especially relative to import penetration, then firms will be most likely to resist the temptation to demand protection in times of economic distress.

A third type of industry involves those with significant export dependence and sizable, integrated multinational operations. Because they are the most integrated into the international economy, these Type III industries are expected to be the least protectionist, since the costs of protection are very high for them. These firms should show a durable interest in continued openness, or further opening, of the home market, as well as a secondary interest in the maintenance of openness in foreign markets even in the face of rising imports and other difficulties. Once again, the preferences of these firms should appear more similar to one another, despite their different contexts, than to other types of firms.

Among the six cases of Type III industries, two are from the 1920s: the fertilizer producers and the photographic equipment manufacturers. The U.S. fertilizer producers were highly export dependent and multinational by the early 1920s. They proved to be very free trade oriented despite their economic problems. In the 1921 tariff hearings they requested the retention of the duty-free status of their products. In the 1929 hearings, this preference still prevailed, although strategic considerations were introduced. Certain producers demanded protection on some goods unless they could receive tariff reductions on others. This strategy was aimed at, and resulted in, greater openness of the home market, since no new tariffs were enacted and several were reduced. Throughout the decade the major producers, those with the largest international operations, opposed the attempts of some small domestic producers to have tariffs on various products increased. In general, the fertilizer manufacturers were more interested in preserving their home markets' openness than in erecting new barriers, despite mounting import competition.

The U.S. photographic equipment industry in the 1920s was also an important exporter with growing international production. This industry, dominated by the Eastman Kodak Company, was initially divided on the tariff issue. The few small domestic producers desired greatly increased tariffs on cameras and film, while Kodak in 1921 sought only moderate increases. Kodak's interest in even minor increases appears somewhat unexpected, but two factors help explain it. First, at this time Kodak had no foreign operations and a declining export position. Its foreign ties were not strong enough to outweigh the temptations of protection. Second, these temptations were all the greater since Kodak was a monopolist at home. Closing the domestic market would effectively eliminate all of Kodak's competition, which consisted chiefly of imports. By 1929 Kodak's position had changed. Its foreign operations were now more developed. Not surprisingly, Kodak began advocating tariff reductions on the products it traded most actively—i.e., films. Although still seeking protection for certain products in order to retain its monopoly position, the firm altered its policy preferences on those goods for which its foreign trade and production operations were most developed.

In the 1970s, the U.S. semiconductor industry had substantial export dependence and integrated multinational operations. Firms in this industry favored trade liberalization throughout much of the decade. In the late 1970s a split developed: the largest and most international firms retained the industry's original preferences, but some smaller firms organized to demand action against Japan's unfair trade practices. In time the largest firms were able to convince the smaller ones that further trade liberalization both at home and abroad was the best strategy. Using the threat of a future trade petition, the industry then pressed both the U.S. government and the Japanese government and firms to agree to negotiations to reduce tariff and nontariff barriers in the semiconductor market. The U.S. firms were thus most interested in enhancing market openness, despite mounting import problems. The threat of petitioning for relief against Japanese imports was a strategic maneuver designed to improve U.S. access to Japan's market, but this approach was disliked by the largest, most multinational firms. The industry's later petitions against the Japanese were also strategic, designed more to open the Japanese market than to close the U.S. one.

Three of the French cases fall into this category of highly interna-

tional industries: the pharmaceutical, glass, and tire makers. The French pharmaceutical industry was by the 1970s much engaged in exporting, multinational production, and intrafirm trading operations, especially within Europe. Despite rising import penetration and severe economic difficulty, this industry never sought protection. In fact, the producers made efforts throughout the decade to reduce trade barriers. They worked to dismantle and/or reduce nontariff barriers (price controls and regulations regarding drug introduction and testing) in France. The industry also actively encouraged European efforts to harmonize drug procedures and standards within the Community, thus facilitating trade. And, rather than rely upon government aid or policy, the pharmaceutical manufacturers pursued their own strategies to maintain and enhance their competitiveness. These French producers responded to their problems not by seeking to close their home market but by acting to promote trade liberalization and their competitiveness.

The French glass industry in the 1970s also was export dependent and multinational. Like other industries of this type, it did not show any interest in protectionism despite rising foreign competition. The industry did not appeal to either the French government or the EC for help. Indeed, it supported the Tokyo Round tariff reductions and fought to keep American glass producers from closing their market. Like the pharmaceutical industry, it was little interested in government aid and chose to adjust to the new international competitive situation on its own. Internal adjustment and continued support of an open trading system were the hallmarks of the glass producers' responses to their economic difficulties.

Another highly international industry in France was the tire manufacturers, which involved primarily one firm, Michelin. By the 1970s Michelin was a large exporter with production and trading operations throughout the world. This firm's response to the difficulties of the decade did not involve seeking protection or government aid. Nor did it seek protection at the European level, where the industry in general and Michelin in particular supported the trade liberalizing measures of the GATT negotiations. Much like the pharmaceutical and glass manufacturers, Michelin sought to adjust through its own internal strategies and continued to support the liberal international trading system. Rising foreign competition, then, did not prompt a protectionist response from the internationally oriented French tire producers.

The six cases that are classified as Type III, highly export dependent and multinational, fit the argument quite well. In each case, except perhaps for Kodak, the firms did not respond to rising import competition by demanding protection. Quite often, their response was to seek further openness of their markets. Two other features common to these cases should be noted. First, in a number of cases, strategic behavior by firms, involving threats to close the home market if markets abroad were not further opened, was evident. The fertilizer and semiconductor cases are two examples. These multinational firms were not merely rational actors reacting to their environment; they were strategic game players, seeking to shape that environment. Second, these firms had a number of options for responding to economic difficulty. Political action in the form of demands for aid or protection did not need to be the first response. Many firms never entered the political arena. Instead they adjusted through their own internal strategies, as in the three French industries. This option was probably more significant for large, international firms than for small, domestic ones, since the former could more easily expand and reshape their international operations to take advantage of the industry's new global situation. In any case, the firms with extensive exports and multinational production were purposeful, strategic actors intent on remaining a part of the international system, rather than reactive agents who preferred the security of a tightly sealed domestic market.

The fourth type of case involves firms with little export activity but substantial foreign production. Unlike Type III firms, Type IVs use foreign production almost entirely to service the host market and tend to lack integrated international operations. Because of the disintegrated character of their production, these firms have less interest in the global trading system than do Types II and III. But these firms are likely to be less protectionist than Type Is. In particular, these multinationals will, if they show any interest in protection, desire selective protection, directed specifically against particular countries and/or products. It will be limited protection, designed to avoid disrupting the industry's international operations but to deal with the most threatening foreign competition.

Among the five industries in this category, one was the 1920s U.S. newsprint manufacturers. Firms in this industry were multinational but only minor exporters. Their foreign operations were concentrated in Canada, where they exported a great deal to the United States. This industry thus did possess a substantial amount of international intrafirm trade, and hence it was more like a Type III industry. Throughout the 1920s the newsprint producers supported freer trade in their product. In neither 1921 nor 1929 did they try to have the duty-free status of newsprint altered. The U.S. newsprint producers, despite rising imports, never sought protection in the 1920s. Much like Type III

firms, they were active players in the international system and perceived its openness to be in their interest. For these firms, even selective protection was not desired, since they did possess substantial world-trading operations and integrated global production. In such conditions protection was not desirable.

In the 1970s, three American cases fit into this fourth category. The U.S. tire producers were large multinationals with few U.S. exports. Only the largest firm, Goodyear, was a highly integrated global producer. This difference produced a split within the industry: Goodyear versus the rest of the firms. The industry for the most part remained in favor of a free trade system throughout the decade. Several divergences from this general orientation occurred, however. In the early 1970s, when imports first surged, the industry began a countervailing duty case against its most threatening rival, Michelin. Goodyear did not support this case, but it was filed and decided in the U.S. industry's favor. Goodyear and Michelin later took action to have it halted and were successful. In the late 1970s, as Asian imports rose, some tire manufacturers again filed petitions on particular products against specific countries. Considering the industry's serious problems, these were restrained actions. These attempts at selective protection were combined with internal activity to adjust to the new international environment. The smaller, less international U.S. tire makers chose internal adjustment and selective protection, while the global giant, Goodyear, preferred a response without recourse to any protection.

The U.S. watch and clock industry was also composed of several large multinationals, who had limited trading operations. This industry underwent major changes in the 1970s as new electronic watches were introduced and rapidly took over the market. The traditional manufacturers' response to this was to seek protection against the new products, and they lobbied both the executive branch and Congress for help. This selective protection was opposed, however, by the sizable group of U.S. importer/assemblers. It was opposed also by the semiconductor firms who had developed electronic watch production. The failure of the conventional producers' efforts to obtain selective protection led them to adjust on their own by increasing their imports and foreign operations. After this, explicit pressure for protection was reduced. Like other industries in this category, the watch producers chose a strategy of selective protection combined with internal adjustment. Global protection was not desired, because this would have upset the firms' other trading and production operations.

The U.S. radio and television industry was fairly multinational, with limited exports. Like the tire industry, it was also divided: its largest firm, RCA, had a well-developed network of international production and trade, while the others were much more domestically oriented. This latter group responded to rising import pressures by waging a continuous battle against certain imports. Led by Zenith, these firms filed a large number of trade petitions against Japanese television imports, beginning in 1968. These actions were opposed by RCA, who feared their impact on its own foreign operations. When protection was granted, it was selective, directed against several countries and specific products in order to avoid hurting RCA's and other U.S. producers' growing offshore-assembly and import operations. In time the industry also pursued its own internal adjustment strategies, which by the 1980s left little radio or television production in the United States and hence little interest in protection.

The French radio and television industry became multinational in the 1970s, but it never developed substantial export operations. The French industry, composed of Thomson-Brandt and several foreign multinationals, had long been a sheltered domestic one—a Type I industry. Preferences for protection against Japanese imports developed early and were retained throughout the 1970s. This selective protection against the Japanese was combined, however, with attempts to open the French market. As Thomson developed production operations in Europe, it increasingly sought a more integrated European market. This was best accomplished by reducing barriers to the French market while erecting barriers to Japanese production at the European level. Thomson increasingly pursued this strategy as the European character of its operations grew. Again the firm sought selective protection in addition to making its own internal adjustments to the heightened competition it faced.

Industries with substantial foreign production but limited exports revealed preferences for selective protection. In fact, their behavior was a cross between that of purely domestic firms (Type I) and highly international ones (Type III). These firms pursued their own adjustment strategies but usually less actively than Type IIIs. To compensate and preserve their international operations, they sought selective protection against their most threatening competition. A combination of resisting adjustment through protection and attempting to adjust internally characterized their behavior. The more like Type III firms they were, the more emphasis they placed on adjustment in contrast to protection. For instance, the 1920s newsprint firms, Goodyear, and RCA were firms with substantial global trade and production activities. These firms did not favor even selective protection, which distinguishes them from the other Type IV cases, who had smaller international operations.

The trade policy preferences of foreign multinationals operating abroad are also part of our argument. The preferences of these foreign subsidiaries depend on whether the subsidiary is part of a Type III or Type IV firm. If the subsidiary services only the domestic host market and was built originally to circumvent trade barriers to that market, the subsidiary will have little interest in reducing those barriers. As part of a Type IV firm, the foreign enterprise will desire at least the maintenance of barriers and perhaps even their elevation in times of rising import penetration.[1] On the other hand, if the operation is part of a parent's global production and trade network, then the subsidiary is unlikely to seek further protection and may want existing barriers reduced. In this case, as part of a Type III firm, the foreign subsidiary should prefer freer trade, much like its parent.

The trade preferences of a variety of the foreign subsidiaries evident in the cases support this argument. In the 1920s, for instance, the British textile machinery firms located in the United States were the spearheads of the British manufacturers' export drive into America. As part of this export strategy, these subsidiaries were tightly integrated into a global trading network run by their parent firms, whose interests were served by an open American market. These subsidiaries not only were ardent opponents of protection but also sought tariff reductions in the United States. Similar to this case were the Japanese and European subsidiaries in the U.S. tire, semiconductor, and radio and television industries. Most of these subsidiaries acted as part of their parent firms' global trade and production networks. Although they serviced mainly the U.S. market, the subsidiaries provided both substitutes and complements for their parents' exporting activities. As part of their parents' global strategy, these firms generally opposed new protection in the United States, especially any targeted against them. Their interest in the reduction of barriers was less apparent. Once in the United States, they may not have become active free traders; nonetheless, they did become active opponents of further protectionism.

Among the French cases, the preferences of foreign subsidiaries were more complicated. The subsidiaries that were developed before the 1970s—those in watches and clocks and radios and televisions—

[1] Richard Caves, *Multinational Enterprise and Economic Analysis* (Cambridge: Cambridge University Press, 1982), pp. 40-43; and Bergsten, Horst, and Moran, *American Multinationals and American Interests*, pp. 297-300.

were intended to service the closed French market. Firms such as Timex-France and Radiotechnique were less a part of their parent's global trading operations; they produced primarily for the protected French market and greeted rising import competition in the 1970s with cries for help. The aid they sought, however, was in the form of industrial policy and not tariff protection. They wanted subsidies from the government but were not vocal proponents of further protection, although they probably did not actively oppose it. On the other hand, subsidiaries developed in the 1970s were different from those begun earlier. In part these subsidiaries were developed less to service the French market than to augment their parents' international operations. In industries like tires, glass, and pharmaceuticals, these new foreign entrants behaved more like Type III firms. They tended to be vocal opponents of any new protection and were silent partners in steps toward trade liberalization, especially within Europe.

Overall, the preferences of these foreign firms varied, depending on their role in their parent firms' strategies. The less integrated into a global trading network and thus the more like a purely domestic firm they were, the more protectionist the foreign subsidiary appeared.[2] When part of a globally integrated multinational, these subsidiaries will be more free-trade oriented. The behavior of these foreign subsidiaries confirms our arguments about Type III and IV firms.

OTHER EXPLANATIONS

How do the case studies shed light on other explanations of firms' trade policy preferences? Although the preferences of industries have been less studied than other factors affecting trade policy outcomes, several different explanations do exist. These have focused on predicting firms' demands for protection; much less has been written about firms' preferences for further trade liberalization.[3] Despite these limitations, the cases here provide new evidence for these other theories.

[2] Although little is known about the amount of influence foreign subsidiaries have on trade policy outcomes in developed countries, it is likely that the more they resemble a domestic firm, the greater their influence will be. This appearance will enhance their legitimacy within the policy process. However, it will make their preferences more like those of domestic firms: more protectionist than their multinational character might predict.

[3] For a summary of this literature, see chapter 2, note 1. Only export dependence is explicitly used to explain antiprotectionist pressures and outcomes.

In part, firms' preferences for protection have been accounted for by their competitive position. That is, indicators of competitive disadvantage have been used to predict protectionist demands. One factor indicating disadvantage that is linked to demands for protection is an industry's labor intensity.[4] The claim is that the more labor (especially unskilled labor) intensive an industry in a developed country is, the more disadvantaged it is and the more likely it is to seek protection. The cases here support this argument to an extent. The most labor-intensive industries among the cases were usually domestically oriented, Type I industries, and hence ones preferring protection. The cases also suggest that the movement of labor-intensive segments of firms' production abroad can enhance firms' willingness to resist protection. As this movement further internationalizes their operations, it thereby increases the costs of protection. Examples of this abounded: the U.S. semiconductor producers, U.S. and French watch and clock manufacturers, U.S. and French radio and television producers, and U.S. newsprint firms. This migration of labor-intensive production abroad has been an important force in the internationalization of production occurring in the past several decades. It has also been a major reason for the growing divergence between the trade preferences of labor unions and multinationals in developed countries.

Other explanations of industry's preferences on trade focus on the characteristics that enhance the rents obtained from trade barriers.[5] This line of inquiry has pointed to the degree of industry concentration—as a proxy for its monopoly power—as a determinant of protectionist demand. One economist explains:

> Ceteris paribus, monopolistic industries can be expected to have a relatively larger stake in tariffs than competitive industries since the latter can enjoy only ephemeral excess quasi-rents before increased investment by the industry and the consequent expansion of supply sends excess capital returns back to zero. . . . Certainly industries which also enjoy monopoly rents are in a better position to exploit the advantages of tariff protection and could be expected, therefore, to lobby relatively intensely.[6]

[4] E.g., Caves, "Economic Models of Political Choice"; Baldwin and Anderson, "Political Market for Protection in Industrial Countries"; Ray, "Determinants of Tariff and Nontariff Trade Restrictions in the U.S."; R. Baldwin, *Political Economy of U.S. Import Policy*, pp. 150-72; Lavergne, *Political Economy of U.S. Tariffs*, pp. 75-87.

[5] Anne Krueger, "Political Economy of the Rent-Seeking Society," *American Economic Review* 64 (1974):291-303; Brock and Magee, "Economics of Special Interest Politics"; Lavergne, *Political Economy of U.S. Tariffs*, pp. 88-90, 92-93.

[6] Lavergne, *Political Economy of U.S. Tariffs*, p. 92.

Tests of this hypothesis have generally not supported it, and the cases here also cast some doubt on it.[7] Many concentrated industries, like U.S. semiconductors or glass and tires in France, were much less protectionist than more competitive industries, like footwear in the 1970s in the United States or France and U.S. woolens and watches and clocks in the 1920s. On the other hand, one case strongly supports this argument. Of all the cases studied, the photographic industry was the most dominated by one firm. Kodak in the 1920s photographic equipment sector was a monopolist using trade barriers to increase its profits. Indeed, Kodak's interest in protection was largely attributable to its monopoly position. This case suggests that only very high levels of concentration may induce firms to seek protection, and that more oligopolistic structures may have mixed effects on firms' preferences.

The amount of protection previously supplied has also been seen as influencing firms' later trade preferences. In general, past protection is expected to have a consistent, positive effect on future demands.[8] Past protection is seen as leading to future demands for protection. The logic behind this argument is that "highly protected industries [will] resist tariff reductions more intensely than low duty industries since, ceteris paribus, the former sectors stand to lose more from the cuts."[9] The cases provide mixed support for this argument. In some, high levels of protection did not seem to influence industries' later preferences. For example, watches and clocks, semiconductors, and machine tools in the United States all had relatively high levels of duty protection prior to the 1970s.[10] During much of that decade, however, these industries favored tariff reductions. For other industries, past protection did engender further similar demands. For instance, the U.S. woolens industry in the 1920s, the U.S. footwear industry, and the French radio and television producers in the 1970s were all highly protected before the period examined and remained protectionist throughout it. In these cases, past protection appeared unsuccessful; that is, the industry's problems continued and/or intensified. This unsuccessful past protection, then, led to demands for new protection.

A more nuanced argument relates the success or failure of past protection to later industry preferences for it. "If protectionism fails to raise profits for a domestic industry, then, ceteris paribus, firms will

[7] Ibid., pp. 152-56; R. Baldwin, *Political Economy of U.S. Import Policy*, pp. 150-72.

[8] On outcomes, see Lavergne, *Political Economy of U.S. Tariffs*, pp. 164-66.

[9] Robert Baldwin, "Political Economy of U.S. Import Policy," 1981, typescript, p. 194.

[10] USTC, *Trade Barriers: An Overview*, 1:56-58; Robert Hawkins and Ingo Walter, eds., *The U.S. and International Markets: Commercial Policy Options in an Age of Controls* (Lexington, Mass.: Heath, 1972), pp. 50-52, 57-62.

increase their demand for future trade barriers. . . . [while] on the other hand if trade barriers improve an industry's economic health, the firms in that industry will reduce the intensity of their lobbying efforts."[11] The claim is that the success of past barriers weakens demands for them later. Some cases here support the first half of this argument, as the U.S. footwear and woolens, and French radio and television industries reveal.

The second part of this argument is more complicated. Demands for protection may be extinguished not only because the earlier barriers were successful but also because the industry adjusted to the foreign competition. In this argument, low barriers to exit in an industry also reduce protectionist demand, because firms can then easily shift to new, more profitable enterprises.[12] Again, the cases underline the importance of adjustment as an alternative to protection. They suggest that two adjustment strategies are particularly salient. Exit from an industry and internationalization of production by firms seem to weigh most strongly in their decisions not to seek protection. In the U.S. radio and television, tire, footwear, and the French tire, glass, and footwear industries, the firms' decisions to leave the industry or to develop significant, new international operations discouraged them from seeking protection. Internationalization of production can serve as an alternative to protection. Not only may strong international ties prevent firms from demanding trade barriers, but having the capacity to internationalize may also alter firms' preferences in a more free trade direction.

This brings us to a final set of factors that have been seen as influencing firms' trade preferences—their international ties. First, export dependence, it is claimed, affects firms' trade preferences.[13] Various studies show that demands for protective measures are much less common among firms that export a substantial part of their production. This study confirms this observation. Export-dependent firms (Type II) were likely to resist protectionist urges even in times of increasing imports. But the cases here suggest a less robust relationship. Export dependence among highly import-penetrated firms was an unstable

[11] Aggarwal, Keohane, and Yoffie, "Dynamics of Negotiated Protectionism," p. 350.

[12] Ibid., p. 356; and Pugel and Walter, "U.S. Corporate Interests," use levels of diversification as an indicator of capacity for adjustment.

[13] Fong, "Export Dependence," ch. 2; R. Baldwin, *Political Economy of U.S. Import Policy*, pp. 150-72; Lavergne, *Political Economy of U.S. Tariffs*, pp. 160-64; Becker, *Dynamics of Business-Government Relations*; Wilson, *American Business and Foreign Policy*; I. M. Destler and John Odell, *Anti-Protection: Changing Forces in United States Trade Politics* (Washington, D.C.: Institute for International Economics, 1987).

bulwark against demands for market closure.[14] In the three cases when exports declined and imports overtook them as a percentage of domestic production, the firms became alarmed and gradually developed an interest in protection. These firms were in transition, moving from a strong export position to an increasingly weak one, which was undoubtedly associated with the industry's growing competitive disadvantage. Export dependence thus may be a less stable deterrent against protectionist demands than extensive, integrated multinationality.

Recent work has attempted to deal with the rise of multinational corporations and their influence on trade policy. It has been argued that multinationals have an interest in reduced trade barriers as a result of concerns about their foreign operations and global intrafirm trade.[15] But in these studies the industry's degree of multinationality has often not been a significant determinant of its preferences,[16] and this finding is supported here. Industry-wide levels of multinationality are not good predictors of firms' trade preferences. One must look both at the individual firms' multinational relations and at the character of that multinationality. First, industry-level data obscures the distribution of international ties among firms. In a highly multinational industry, some firms may have few, if any, international ties and may thus be protectionist. Because of this uneven distribution, data on individual firms may give a more accurate picture of their trade preferences. Indeed, firm-level data collected elsewhere strongly confirm the importance of multinational ties as a brake on protectionist demands, as this study also does.[17] Second, multinational firms organized in different ways may have distinct preferences. As pointed out, multinationals without global trade networks may be selectively protectionist; multinationals with extensive global networks are likely to be ardent opponents of protection. It is not simply multinationality but the character of this foreign involvement that is crucial to understanding firms' trade preferences.

The nature of multinationals' trade relations may also affect a firm's

[14] Becker, in *Dynamics of Business-Government Relations*, attributes this weak export pressure to a serious division among U.S. exporters, which pits the large firms not desiring any government help against smaller exporters very interested in such aid.

[15] Raymond Vernon, "International Trade Policy in the 1980s," *International Studies Quarterly* 26 (December 1982):483-510; R. Baldwin, *Political Economy of U.S. Import Policy*, pp. 145-51; Fong, "Export Dependence," ch. 2; Helleiner, "Transnational Enterprise and the New Political Economy"; Lavergne, *Political Economy of U.S. Tariffs*, pp. 104-106.

[16] E.g., R. Baldwin, *Political Economy of U.S. Import Policy*, pp. 166-67.

[17] Pugel and Walter, "U.S. Corporate Interests."

trade preferences. This connection has been examined elsewhere. Réal Lavergne has tested the hypothesis that the growth of U.S. multinationals with large trade flows from abroad has altered the structure of U.S. protection. He finds little evidence for such a claim but realizes that his dependent variable may not capture their influence. Noting that multinational affiliates' exports to the United States are "of a modest proportion," or about 12 percent of all nonauto, nonpetroleum manufactured imports, he queries whether "it is legitimate to ask if such a proportion is sufficient to have an important impact in determining the *structure* of barriers to trade in the U.S.," and points out that "it is quite possible that such imports have had an impact of importance in selected sectors."[18] Our case studies support this latter point, for among Type III industries, resistance to protection was widespread.

The industries focused on in this study lend credence to others' assertions that labor intensity, high levels of concentration, export dependence, and multinationality influence firms' trade policy preferences. Our cases also imply that the influence of past policies on later demands may be quite complicated, since the industries reveal varying effects exercised by the past. The case study approach thus helps shed light on other more aggregate examinations of firms' trade preferences and can provide a more detailed understanding of how some key factors may actually affect firms' preferences.

Rational Behavior and Firms' Preferences

The logic of the argument in this book rests on a rational actor model of firm behavior.[19] In Chapter 2, it was argued that firms highly integrated into the international economy should find protection too costly even in times of distress. But do firms appear as rational, cost-benefit calculators in the determination of their preferences? And are the key factors prompting them to resist protection the "costly" aspects

[18] Lavergne, *Political Economy of U.S. Tariffs*, p. 106. Emphasis added.

[19] This model does not postulate either (1) perfect rationality, or (2) utility-maximizing behavior. The argument here is consistent with a bounded rationality model based on satisficing. It is claimed simply that firms, when challenged by imports and other difficulties, think about ways to alleviate these problems, including demanding protection, and attempt to evaluate the costs and benefits of their options. In particular, it is maintained that they analyze seriously the protectionist option. This implies firms act as if they were unitary actors, although the "thought process" may in fact involve much discussion and dissension within the firm. But no claim is made that firms have perfect information, infinite processing capabilities, or maximizing utility functions. See McKeown, "Firms and Tariff Regime Change."

identified? Is it fear of foreign retaliation and the other economic costs involved in disrupting a firm's international trade networks that provoke resistance to protection?

In general, the cases provide affirmative answers to these questions. Firms assessed their situations to understand the costs and benefits of different courses of action and eventually chose the course that appeared least costly. Concerns about foreign retaliation and other costs of protection were often expressed by export-oriented and multinational firms in deciding to resist protection. Other factors, however, also affected firms' decision making.

Scholars have suggested two arguments why rational behavior may not prevail. First, rationality may be outweighed by context. That is, ingrained habits, traditional ways of doing things, and standard operating procedures may exert more influence on firms than do their calculations of the costs and benefits of different courses of action.[20] This implies, for instance, a greater willingness on the part of 1920s firms to opt for protection, since historically protection had been high, than on the part of 1970s firms, many of whose recent history involved trade liberalization. But the cases challenge this claim, because industries with similar levels of international ties in the 1920s and 1970s behaved similarly. The logic of their international position transcended their particular habits and traditions.

Context is not unimportant, of course, and helps account for other behavior. For instance, since exporting behavior was new for many American firms after World War I, this may explain why these exports did not exercise as constraining an effect on protection as expected. The 1920s textile machinery industry is an example. Before the war, the firms in this industry had few exports and were dominated by British and German producers. When their exports rose after World War I, the U.S. firms lacked confidence in their ability to sustain this foreign trade when the Europeans eventually revived their industry. The U.S. firms did not become ardently protectionist. But without confidence in their export capacity, the U.S. textile machinery producers saw little to be gained from promoting exports and, as European imports surged, more to be gained from maintaining protection of the home market. In this case, the historical context of the industry influenced its trade preferences. This context, nonetheless, was not com-

[20] The classic piece arguing this was Robert Hall and Charles Hitch, "Price Theory and Business Behavior," *Oxford Economic Papers* 2 (May 1939):12-45. Other discussions are in Herbert Simon, "Theories of Decision-making in Economics and Behavioral Science," *American Economic Review* 49 (June 1959):253-83; Richard Cyert and James March, *A Behavioral Theory of the Firm* (Englewood Cliffs, N.J.: Prentice-Hall, 1963).

pletely determining. The industry never wanted to return to the high levels of protection accorded it before the war. The industry's new export dependence did influence its behavior and limit the effects of its historical position. Context can affect an industry's perceptions of its preferences, but it may not invalidate the influence exerted by firms' international positions.

Ideological motives, rather than rational calculations, may also be more important in understanding firms' behavior.[21] In particular, firms in the 1970s, existing after the era of the Great Depression, might have been ideologically more opposed to demanding protection, because they had imbibed the historical "lesson" that protection leads to depression.[22] If this were true, and if we controlled for import penetration levels and international ties, firms in the 1970s should have been less likely to demand protection. This does not appear to have been the case. For example, highly import-penetrated industries without international ties in both periods, such as U.S. woolens in the 1920s and U.S. footwear in the 1970s, were both ardent global protectionists. Moreover, direct evidence of such ideological behavior is lacking. Firms and industry associations rarely, if ever, pointed to the problems of the 1920s and 1930s as a reason for resisting protection. Rather, the firm's immediate trading situation and foreign operations were most cited. These findings do not invalidate arguments about ideology. They simply suggest that firms also attempt rational analyses of their situations when defining their preferences.

Ideology may actually bolster the rational behavior of firms. For instance, the experience of the Great Depression has made contemporary firms with strong international ties more able to understand the potentially devastating effects of protection on their global operations and has thus enhanced their capacity to make rational decisions about their trade preferences. The cases do not contradict an interpretation

[21] The term "ideology" is used loosely here. Ideology is typically defined as "a structured or closely interrelated set of beliefs." I am using it more to refer to the assumptions or underlying beliefs that decision makers in firms might have imbibed from the historical analogies or liberal economic ideas that pervade their environments. Several studies suggest firms operate in the political arena in such less than rational ways. See, e.g., Bauer, Pool, and Dexter, *American Business and Public Policy*, esp. chs. 8, 9, 12, 13; and Bruce Russett and Elizabeth Hanson, *Interest and Ideology: The Foreign Policy Beliefs of American Businessmen* (San Francisco: W. H. Freeman and Co., 1975), pp. 107-108, for this definition of ideology.

[22] Although made most often about American decision makers, this argument could also apply to U.S. businessmen; see Goldstein, "Reexamination of American Commercial Policy."

based on ideology. Historical "lessons" may in fact improve firms' rational calculations.

Finally, many of the cases confirm the observation that the high costs of protection for internationally oriented firms—involving retaliation and other economic effects—play a role in dissuading them from seeking it. But a rational actor argument implies that the higher costs of protection *relative* to other options should be determining. These other options have not been discussed systematically, although evidence of them abounds in the cases. Three options are possible: (1) do nothing, (wait and see), (2) try to adjust and improve competitiveness, and (3) demand other forms of aid from the government. The costs of these strategies, which will depend on the firm's situation, are likely to affect a firm's interest in protection as well.

Since the first option is least likely, given these firms' high levels of economic distress, let us focus on the relative costs of the last two options. First, the costs of adjusting to improve one's competitiveness appear less for large firms with international ties and other business avenues open to them. Internal adjustment was most apparent (and successful) among firms in the U.S. semiconductor, tire, and television industries and in the French tire and glass industries. In general, these firms were more willing and easily able to adapt their operations to new conditions of international competition. As large multinationals, they were better able to sell off uncompetitive businesses, move production abroad, and/or introduce more competitive production procedures in their plants.

Smaller firms, especially those without any international ties, generally found the costs of adjustment far higher and were less willing to attempt it.[23] Small, domestic firms may have only one business, and to sell it means the end of the enterprise. For them, exit may be more costly than voice. For a firm with no experience abroad, taking such a step may be extremely difficult and costly. Introducing more competitive procedures may also require large amounts of capital that small firms do not possess. The choice for small, domestic firms is often clear: protection offers the least costly option in times of distress.

The costs of protection should also be weighed against the costs of demanding other forms of government aid. Policy substitutes less

[23] This contrasts with the argument of Michael Piore and Charles Sabel in *The Second Industrial Divide: Possibilities for Prosperity* (New York: Basic Books, 1984), esp. chs. 2, 8, where they maintain that small firms with flexible production techniques may be the most adaptable to the uncertain, competitive economic environment of today. They note that large firms may develop flexible specialization, but they seem to think this is much more likely in small firms; see, e.g., pp. 28–37.

costly than outright protection may be available in some cases. The likelihood that a firm will opt for these substitutes depends generally on their availability and expected attainability. One difference between French and American firms' behavior may lie in the greater availability of such substitutes in France than in the United States. It has been maintained that the wide array of French industrial policy instruments acts as a substitute for protectionist policies.[24] Some of the cases support this. In the French footwear and watch and clock cases, firms attempted to obtain government aid as their imports and difficulties mounted. But the cases also demonstrate that industrial policy is frequently *not* an effective substitute for protection. In both of these cases, the industrial policies adopted had little effect on imports. Imports continued to surge after these policies were implemented, and the industries were driven to seek outright protection. As the French cases generally demonstrated, an industrial policy that had protectionist elements was rarely successful without actual protection. The French cases suggest demands for industrial policy may be less costly for firms initially; once they fail to address the problem, however, other options, especially protection, will be considered.

Firms thus appear to define their trade preferences rationally. Historical context and ideological atmosphere may influence them, but these factors do not outweigh cost-benefit calculations. In fact, the costs of protection, especially relative to other options, are of major importance in deterring internationally oriented firms from seeking protection in times of economic distress.

The Historical Puzzle

Why did the 1970s see less protection than the 1920s, despite the comparable levels of economic distress and declining hegemony that characterized both? Our answer to this puzzle can now be given. Firms more integrated into the international economy are less protectionist than domestically oriented ones under similar conditions of economic difficulty. On a macro level, this implies that in periods when such international ties are more prevalent, demands for protection throughout the economy will be less. Much higher levels of such ties, almost ten times greater, in fact, were apparent in the 1970s than in the 1920s (see table 6.3). In the 1970s, therefore, many more firms

[24] Victoria Curzon Price, *Industrial Policies in the EC* (London: St. Martin's, 1981), esp. pp. 21, 35.

TABLE 6.3 Average U.S. International Economic Ties, 1920s and 1970s

U.S. Industrial Export Dependence	
1920s	2.1% (1925)
1970s	20% (1975)
U.S. Manufacturing Multinationality	
1920s	2.5% (1929)
1970s	20% (1977)

SOURCES: For average U.S. industrial export dependence (the value of industrial exports as a percentage of total industrial GNP): Data for 1920s from Robert Lipsey, *Price and Quantity Trends in the Foreign Trade of the United States* (Princeton: Princeton University Press, 1963), pp. 434-35; data on the 1970s from 1985 *Economic Report of the President* (Washington, D.C.: GPO, 1986), tables B-10, B-101. For average multinationality of U.S. industry: 1920s data on value of direct foreign investment by industry from U.S. Senate, *American Branch Factories Abroad*, 71st Cong., 3rd sess., 1931, S. Doc. 258, p. 27; data on the value of industrial GNP from Lipsey, *Price and Quantity Trends*, p. 424. Data on the 1970s from U.S. Dept. of Commerce, *1977 Enterprise Statistics* (Washington, DC: GPO, 1981), for value of all foreign assets of U.S. manufacturing as a percentage of total manufacturing assets (column Q over column R).

willing to resist the temptation to demand protection in times of economic distress existed.

Although I have argued that the growth of international ties contributed to the maintenance of free trade in the 1970s and early 1980s, it must be noted that this internationalization of U.S. industry went hand in hand with trade liberalization in the postwar period. Clearly, the liberalization of trade in the 1950s and 1960s was one factor promoting the growth of these international ties. But much of this expansion occurred before the two most significant reductions in trade barriers—those negotiated in the Kennedy and Tokyo Rounds. U.S. export dependence and especially U.S. multinationality grew significantly before the phasing in of the Kennedy Round tariff cuts in the early 1970s. U.S. industrial export dependence rose 33 percent between 1960 and 1970, and the value of U.S. direct foreign investment in manufacturing increased nearly 800 percent between 1950 and 1970.[25] The growth of these international ties cannot be separated from the liberalization of trade occurring at the same time. But the

[25] The export dependence data come from Report of the President's Commission on Industrial Competitiveness, *Global Competition*, 1:36. The data on direct foreign investment come from Feldstein, ed., *The American Economy in Transition*, p. 240, table 3.30.

expansion of these ties prior to the 1970s suggests that forces for trade liberalization—e.g., industries with international ties—were in place before the 1970s and were factors in the liberalization that occurred during that decade. The growth of international ties meant that by the 1970s many more firms were more willing to resist protectionist pressures.

Demand for protection, despite higher average levels of import penetration, was less widespread than in the 1920s. This reduced demand provides a partial answer to the central puzzle. Moreover, it suggests that arguments that examine the "supply" of protection should also look closely at demand, since claims of reduced "supply" are less interesting if less protection is also initially being demanded. The 1970s were thus less protectionist than expected, given the decade's high levels of import penetration, because the demand for such protection was muted by industries' heightened international interdependence.